July 17, 2017

Senator Orrin Hatch
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch:

On behalf of the state and local elected and appointed officials that our national organizations represent, we commend you on your efforts to reform the tax code, and appreciate your call for feedback from stakeholders. As Congress considers comprehensive tax reform, we urge the committee to maintain both the tax exemption for municipal bond interest and the deductibility of state and local taxes. These essential components of the tax code support vital investments in infrastructure, public safety and education, encourage economic growth and provide states and local governments with financial flexibility to meet our residents' needs.

Protect State and Local Tax Deductibility

The deduction for state and local taxes paid was one of the six deductions allowed under the original tax code when it was enacted in 1913. Eliminating or capping federal deductibility for state and local property, sales and income taxes would represent double taxation, as these taxes are mandatory payments for all taxpayers. Data shows these adverse impacts would hit taxpayers in all states and income brackets. Elimination could also effectively increase marginal tax rates for certain taxpayers and shrink disposable income, potentially harming the U.S. economy. Finally, any alterations to the deduction would upset the carefully balanced fiscal federalism that has existed since the permanent creation of the federal income tax over 100 years ago.

We strongly believe that no federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of states and local governments to develop and operate our own tax systems. States and local governments deploy revenues from state and local property, sales and income taxes to help finance long term infrastructure projects, local law enforcement, emergency services, education costs and many other services. By eliminating the federal deductibility of these taxes, Congress would be shifting the intergovernmental balance of income taxation and could limit state and local control of our tax systems, greatly constraining policy options available to states and local governments facing economic hardships and increased responsibilities due to the devolution of federal programs. Additional data on the impact of repealing the state and local tax deduction can be found in the attached report: "The Impact of Eliminating the State and Local Tax Deduction."

Preserve the Municipal Bond Interest Tax Exclusion

Tax-exempt municipal bonds have also been a fundamental feature of the United States tax code since 1913. Municipal bonds remain the primary method used by states and local governments to finance public capital improvements and public infrastructure projects – including our roads, bridges, schools, hospitals, water infrastructure and much more – which are essential for creating jobs, sustaining economic growth and improving the quality of life for Americans in every corner of this country. Any tax reform bill should not sacrifice – and drive up the costs – of one of our nation's most effective methods of financing for critical infrastructure.

States and local governments own and operate the vast majority of our nation's infrastructure systems and invested $3.8 trillion in infrastructure through municipal bonds from 2007 to 2016. The federal tax exemption reduces the cost of issuing municipal bonds, which is vital to taxpayers across the country who pay the interest and principle on municipal bond debt in exchange for investing in public, community assets.

We do not believe it is the intent of Congress to undermine the ability of states and local governments to meet the needs of the citizens we all serve through comprehensive tax reform. We urge lawmakers to carefully consider any changes to the tax-exempt status of municipal bonds and the deductibility of state and local taxes, as both are essential tools for states and local governments across the country.

We appreciate your leadership and share your goal of ensuring the best use of American taxpayer resources.

Sincerely,

David Adkins
CEO and Executive Director
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Matthew D. Chase
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Scott Pattison
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Marc Ott
Executive Director
International City/County Management Association

CC: Senator Ron Wyden, Ranking Member, Senate Finance Committee